Financial Statements

Karsch Capital II, Ltd.
Year Ended June 30, 2011
With Report of Independent Auditors

Ernst & Young Ltd.

Karsch Capital II, Ltd.

Financial Statements

Year Ended June 30, 2011

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Report of Independent Auditors

The Board of Directors
Karsch Capital II, Ltd.

We have audited the accompanying statement of assets and liabilities of Karsch Capital II, Ltd. (the "Fund"), including the condensed schedule of investments, as of June 30, 2011, and the related statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Karsch Capital II, Ltd. at June 30, 2011, and the results of its operations, the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Ernst + Young Ltd.

September 29, 2011

Karsch Capital II, Ltd.

Statement of Assets and Liabilities
(Stated in United States Dollars)

June 30, 2011

Assets	
Cash equivalents	$ 9,999,700
Investments in securities, at fair value (cost $178,525,843)	197,546,452
Due from brokers	119,830,988
Interest and dividends receivable	178,670
Other assets	9,250
Equalization	105,309
Total assets	327,670,369
Liabilities	
Securities sold, not yet purchased, at fair value (proceeds $76,989,326)	79,295,043
Redemptions payable	9,359,189
Incentive fee payable	4,266,154
Net unrealized depreciation on derivative contracts, at fair value	892,779
Interest and dividends payable	132,295
Accrued expenses	123,640
Management fee payable	42,386
Taxes payable	9,616
Total liabilities	94,121,102
Net assets	$ 233,549,267
Net asset value per share	
Class A (based on net assets of $232,486,797 and 1,008,561.92 shares outstanding)	$ 230.51
Class B (based on net assets of $1,062,470 and 5,133.85 shares outstanding)	$ 206.95

The accompanying notes form an integral part of the financial statements.

Karsch Capital II, Ltd.

Condensed Schedule of Investments

(Stated in United States Dollars)

June 30, 2011

Description	Shares		Fair Value	Percentage of Net Assets	
Investments in securities					
Common stock					
United States					
Energy					
Marathon Oil Corporation	323,000	$	17,015,640	7.29	%
Marathon Oil Corporation - when issued	21,810		706,644	0.30	
The Williams Companies, Inc.	489,150		14,796,788	6.34	
Other			6,145,619	2.63	
Total Energy			38,664,691	16.56	
Industrial			23,476,626	10.05	
Healthcare			22,093,134	9.46	
Internet					
priceline.com Incorporated	23,400		11,979,162	5.13	
Other			9,998,537	4.28	
Total Internet			21,977,699	9.41	
Telecommunications			20,595,076	8.82	
Retail			11,494,719	4.92	
Consumer			11,213,187	4.80	
Financial			11,104,781	4.75	
Technology			7,050,417	3.02	
Total United States (cost $151,346,860)			167,670,330	71.79	
Asia					
Healthcare			6,353,708	2.72	
Consumer			4,827,159	2.07	
Technology			4,825,997	2.06	
Financial			2,679,105	1.15	
Total Asia (cost $17,188,169)			18,685,969	8.00	
Canada					
Industrial (cost $2,856,966)			3,029,019	1.30	

The accompanying notes form an integral part of the financial statements.

Karsch Capital II, Ltd.

Condensed Schedule of Investments (continued)
(Stated in United States Dollars)

June 30, 2011

Description		Fair Value	Percentage of Net Assets	
Investments in securities (continued)				
Common stock (continued)				
Europe				
Healthcare (cost $2,526,041)	$	4,509,832	1.93	%
Total common stock (cost $173,918,036)	$	193,895,150	83.02	%
Exchange-traded funds				
United States				
Funds/Index (cost $2,379,440)	$	2,484,324	1.06	%
Call options purchased				
United States				
Funds/Index (premiums paid $149,602)	$	384,592	0.17	%
Europe				
Funds/Index (premiums paid $47,207)		-	0.00	
Total call options purchased (premiums paid $196,809)	$	384,592	0.17	%
Put options purchased				
United States				
Funds/Index	$	735,431	0.31	%
Healthcare		36,693	0.02	
Internet		10,262	0.00	
Total put options purchased (premiums paid $2,031,558)	$	782,386	0.33	%
Total investments in securities (cost $178,525,843)	$	197,546,452	84.58	%

The accompanying notes form an integral part of the financial statements.

Karsch Capital II, Ltd.

Condensed Schedule of Investments (continued)
(Stated in United States Dollars)

June 30, 2011

Description	Shares	Fair Value	Percentage of Net Assets
Securities sold, not yet purchased			
Common stock			
United States			
Healthcare		$ 10,285,810	4.40 %
Energy		8,354,828	3.58
Technology		6,831,304	2.92
Financial		6,101,377	2.61
Consumer		3,787,701	1.62
Industrial		1,909,598	0.82
Retail		1,908,208	0.82
Telecommunications		881,947	0.38
Total United States (proceeds $38,368,325)		40,060,773	17.15
Asia			
Technology		2,469,038	1.06
Consumer		2,024,803	0.87
Internet		416,186	0.18
Total Asia (proceeds $4,778,820)		4,910,027	2.11
Canada			
Industrial (proceeds $1,840,292)		1,921,587	0.82
Total common stock (proceeds $44,987,437)		$ 46,892,387	20.08 %
Exchange-traded funds			
United States			
Funds/Index			
Powershares QQQ	398,910	$ 22,757,816	9.74 %
Other		9,189,333	3.93
Total exchange-traded funds (proceeds $31,459,740)		$ 31,947,149	13.67 %

The accompanying notes form an integral part of the financial statements.

Karsch Capital II, Ltd.

Condensed Schedule of Investments (continued)
(Stated in United States Dollars)

June 30, 2011

Description		Fair Value	Percentage of Net Assets	
Securities sold, not yet purchased (continued)				
Written call options				
United States				
Internet	$	269,880	0.12	%
Retail		32,021	0.01	
Total written call options				
(premiums received $162,615)	$	301,901	0.13	%
Written put options				
United States				
Internet	$	112,341	0.05	%
Retail		41,265	0.02	
Total written put options				
(premiums received $379,534)	$	153,606	0.07	%
Total securities sold, not yet purchased				
(proceeds $76,989,326)	$	79,295,043	33.95	%

The accompanying notes form an integral part of the financial statements.

Karsch Capital II, Ltd.

Condensed Schedule of Investments (continued)

(Stated in United States Dollars)

June 30, 2011

Description		Unrealized Appreciation/ (Depreciation)	Percentage of Net Assets	
Net unrealized depreciation on derivative contracts				
Contracts for difference - short contracts				
United States				
Energy	$	(237,903)	(0.10)	%
Industrial		(89,673)	(0.04)	
Healthcare		(78,467)	(0.04)	
Total United States		(406,043)	(0.18)	
Australia				
Financial		61,641	0.03	
Total contracts for difference	$	(344,402)	(0.15)	%
Futures contracts - short contracts				
Asia				
Funds/Index	$	(113,588)	(0.05)	%
Europe				
Funds/Index		(96,398)	(0.04)	
Total futures contracts	$	(209,986)	(0.09)	%
Forward foreign currency contracts				
Forward foreign currency contracts, receive U.S. Dollars	$	(319,720)	(0.14)	%
Forward foreign currency contracts, deliver U.S. Dollars		(18,671)	(0.01)	
Net unrealized depreciation on forward foreign currency contracts	$	(338,391)	(0.15)	%
Net unrealized depreciation on derivative contracts	$	(892,779)	(0.39)	%

The accompanying notes form an integral part of the financial statements.

Karsch Capital II, Ltd.

Statement of Operations
(Stated in United States Dollars)

Year Ended June 30, 2011

Investment income		
Dividends (net of withholding taxes of $502,871)	$	1,447,983
Interest		140,478
Other		1,281
Total income		1,589,742
Expenses		
Incentive fees		4,254,922
Management fee		3,191,328
Dividends on securities sold, not yet purchased		1,507,626
Interest		385,722
Professional fees		333,863
Appreciation on deferred fees		148,437
Other		71,874
Total expenses		9,893,772
Net investment loss		(8,304,030)
Net realized and net change in unrealized gain/(loss) on investment transactions		
Net realized gain on investments in securities		19,152,906
Net realized loss on derivative contracts		(2,247,001)
Net realized loss on foreign exchange transactions		(74,667)
Net change in unrealized appreciation on investments in securities		15,218,173
Net change in unrealized depreciation on derivative contracts		(971,076)
Net change in unrealized depreciation on foreign exchange transactions		(80,664)
Net realized and net change in unrealized gain on investment transactions		30,997,671
Net increase in net assets resulting from operations	$	22,693,641

The accompanying notes form an integral part of the financial statements.

Karsch Capital II, Ltd.

Statement of Changes in Net Assets

(Stated in United States Dollars)

Year Ended June 30, 2011

Increase in net assets resulting from operations		
Net realized gain on investments in securities	$	19,152,906
Net realized loss on derivative contracts		(2,247,001)
Net realized loss on foreign exchange transactions		(74,667)
Net change in unrealized appreciation on investments in securities		15,218,173
Net change in unrealized depreciation on derivative contracts		(971,076)
Net change in unrealized depreciation on foreign exchange transactions		(80,664)
Net investment loss		(8,304,030)
Net increase in net assets resulting from operations		22,693,641
Increase in net assets resulting from capital share transactions		
Shares issued:		
Class A		113,400,000
Class B		1,100,000
Shares redeemed:		
Class A		(63,616,343)
Class B		(10,012,504)
Equalization		105,309
Net increase in net assets resulting from capital transactions		40,976,462
Net increase in net assets		63,670,103
Net assets at beginning of year		169,879,164
Net assets at end of year	$	233,549,267

The accompanying notes form an integral part of the financial statements.

Karsch Capital II, Ltd.

Statement of Cash Flows
(Stated in United States Dollars)

Year Ended June 30, 2011

Cash flows from operating activities	
Net increase in net assets resulting from operations	$ 22,693,641
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities	
Purchases of investments in securities	(1,270,097,737)
Proceeds from disposition of investments in securities	1,276,454,491
Purchases to cover securities sold, not yet purchased	(1,112,437,043)
Proceeds from securities sold, not yet purchased	1,093,149,045
Net realized gain on investments in securities	(19,152,906)
Net change in unrealized appreciation on investments in securities	(15,218,173)
Net change in unrealized depreciation on derivative contracts	971,076
Net change in operating assets and liabilities:	
Due from brokers	3,915,941
Interest and dividends receivable	(1,988)
Other assets	(3,624)
Incentive fee payable	4,256,243
Interest and dividends payable	(24,465)
Accrued expenses	7,226
Management fee payable	26,205
Taxes payable	(249,537)
Deferred fees	(4,026,154)
Net cash used in operating activities	(19,737,759)
Cash flows from financing activities	
Proceeds from issuance of shares	114,500,000
Payments for redemption of shares	(84,762,541)
Net cash provided by financing activities	29,737,459
Net increase in cash equivalents	9,999,700
Cash equivalents at beginning of year	-
Cash equivalents at end of year	$ 9,999,700
Supplementary disclosure of cash flow information	
Cash paid during the year for interest	$ 369,902

The accompanying notes form an integral part of the financial statements.

Karsch Capital II, Ltd.

Notes to Financial Statements
(Stated in United States Dollars)

June 30, 2011

1. Organization and Principal Activity

Karsch Capital II, Ltd. (the "Fund") was incorporated on March 22, 2006 under the laws of the Cayman Islands as an exempted company and commenced operations on April 1, 2006. The Fund was registered under the Mutual Funds Law of the Cayman Islands on March 31, 2006.

The investment objective of the Fund is to achieve capital appreciation while minimizing risk by investing (on the long and short side) primarily in equities and equity-related securities. The primary geographic focus of the Fund is the United States and, to a lesser extent, other developed economies, while the secondary geographic focus is in developing countries. Karsch Capital Management, LP, a Delaware limited partnership, is the investment manager (the "Investment Manager") of the Fund. The Investment Manager is registered with the Securities and Exchange Commission as an investment adviser under the U.S. Investment Advisers Act of 1940. Goldman Sachs & Co., Credit Suisse Securities (USA), LLC, The Bank of New York Mellon, Deutsche Bank, AG, and Morgan Stanley & Co. (the "Brokers") serve as the Fund's prime brokers and custodians. Goldman Sachs Administration Services (the "Administrator") serves as the Fund's administrator.

The Fund has a Board of Directors which holds a meeting at least once a year or as needed to review and assess the performance of the Fund and, generally, to supervise the conduct of its affairs.

2. Significant Accounting Policies

These financial statements are prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") and are expressed in United States dollars.

(a) Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

2. Significant Accounting Policies (continued)

(b) Valuation

Securities listed on a national securities exchange or listed on NASDAQ are valued at the last reported sales price on the primary exchange on which such securities have traded on the last business day of the financial year. Investments in securities traded in the over-the-counter market are recorded at the last reported "bid" price if held long, and last reported "ask" price if sold short. Options listed on a national securities exchange or NASDAQ are recorded at the mean between their "bid" and "ask" prices.

Forward foreign currency contracts and contracts for difference are valued at the difference between the contract price and the market value at the date of the statement of assets and liabilities. Market values for forward foreign currency contracts are based on published quotations on forward foreign currency rates for the equivalent period to maturity from the date of valuation. Generally, the key inputs for most forward contracts include notional, maturity, forward rate, spot rate, various interest rate curves and discount factor. Market values for contracts for difference are generally based on the last available trade price on the principal market on which the underlying security is traded. Generally, the key inputs for most swap contracts include notional, swap period, fixed rate, credit or interest rate curves, current market or spot price of the underlying and the volatility of the underlying. Generally, the key inputs for most over-the-counter option contracts include notional, strike price, maturity, payout structure, current foreign exchange forward and spot rates, current market price of underlying and volatility of underlying. Investments other than those discussed above are valued at fair value as determined by the Investment Manager. At June 30, 2011, the Fund had no investments fair valued by the Investment Manager.

Under U.S. GAAP, fair value is defined as the price that the Fund would receive to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of the Fund's assets and liabilities, which qualify as financial instruments, approximates the carrying amounts presented in the statement of assets and liabilities. The Fund categorizes its fair value measurements according to a three-level hierarchy based upon the transparency of the inputs to the valuation of an asset or a liability. Inputs may be observable or unobservable and refer broadly to the assumptions that market participants would use in pricing the asset or liability. Observable inputs reflect assumptions market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Fund. Unobservable inputs reflect the Fund's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

2. Significant Accounting Policies (continued)

(b) Valuation (continued)

Each investment is assigned a level based upon the lowest level of observability of the inputs which are significant to the overall valuation. These inputs are summarized in the three broad levels listed below.

Level I - Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level I are publicly-traded equity securities, futures contracts and exchange-traded options. Publicly-traded equity securities are valued at the last reported sales price at the measurement date on the principal exchange on which such securities are traded. As required by U.S. GAAP, the Fund does not adjust the quoted price for these investments even in situations, if any, where the Fund holds a large position and a sale could reasonably impact the quoted price.

Level II - Pricing inputs other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and are determined through the use of models or other valuation methodologies. Such investments include certain over-the-counter derivative contracts.

Level III - Pricing inputs are unobservable and include situations where there is little, if any, market activity for the investment. Fair value for these investments is determined using valuation methodologies which include market and income approaches that consider a range of factors, including but not limited to, the price at which the investment was acquired, the nature of the investment, local market conditions, trading values on public exchanges for comparable securities, current and projected operating performance, and financing transactions subsequent to the acquisition of the investment. The inputs into the determination of fair value require significant management judgment. Due to the inherent uncertainty of these estimates, these values may differ materially from the values that would have been used had an active market for these investments existed. Investments in this category include certain over-the-counter options. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Investment Manager's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

2. Significant Accounting Policies (continued)

(b) Valuation (continued)

The following table summarizes the valuation of the Fund's investments by the above fair value hierarchy levels as of June 30, 2011:

	Total	Level I	Level II	Level III
Assets				
Common stock	$193,895,150	$193,895,150	$ -	$ -
Exchange-traded funds	2,484,324	2,484,324	-	-
Call options purchased				
Funds/Index	384,592	384,592	-	-
Put options purchased	782,386	782,386	-	-
Unrealized appreciation on contracts for difference	66,454	-	66,454	-
Unrealized appreciation on forwards foreign currency contracts	149,815	-	149,815	-
Total	$197,762,721	$197,546,452	$216,269	$ -
Liabilities				
Common stock	$46,892,387	$46,892,387	$ -	$ -
Exchange-traded funds	31,947,149	31,947,149	-	-
Call options written	301,901	301,901	-	-
Put options written	153,606	153,606	-	-
Unrealized depreciation on contracts for difference	410,856	-	410,856	-
Unrealized depreciation on futures contracts	209,986	209,986	-	-
Unrealized depreciation on forward foreign currency contracts	488,206	-	488,206	-
Total	$80,404,091	$79,505,029	$899,062	$ -

The investments in securities and securities sold, not yet purchased have been disclosed by security classification, geographic location and industry on the condensed schedule of investments.

2. Significant Accounting Policies (continued)

(b) Valuation (continued)

The Investment Manager periodically reviews the level assigned to each investment and makes adjustments when necessary. When assets and liabilities are transferred into Level 3 during the year, gains/(losses) are presented as if the assets or liabilities had been transferred into Level 3 at the beginning of the year; similarly, for assets and liabilities that were transferred out of Level 3 during the year, gains/(losses) are presented as if the assets or liabilities had been transferred out at the beginning of the year. There were no transfers between levels during the year ended June 30, 2011.

The changes in the investments classified as Level III are as follows:

	Total	Call options purchased**	Call options written	Put options written
Balance at July 1, 2010	$ 108,830	$ 121,590	$ (1,560)	$ (11,200)
Purchases	1,292	-	1,292	-
Sales	-	-	-	-
Net realized gain/(loss)*	(153,997)	(163,761)	2,916	6,848
Net change in unrealized appreciation/(depreciation)*	43,875	42,171	(2,648)	4,352
Balance at June 30, 2011	$ -	$ -	$ -	$ -
Changes in net unrealized depreciation relating to investments still held at June 30, 2011	$ (22,603)	$ (22,603)	$ -	$ -

** Net realized gain/(loss) and net change in unrealized appreciation/(depreciation), if any, recorded on Level III financial instruments are included in net realized and unrealized gain/(loss) on securities in the statement of operation, respectively.*

*** Changes in net unrealized depreciation relating to investments still held at June 30, 2011, includes call options purchased with a fair value of $0.*

(c) Security transactions and investment income

Realized gains and losses on security transactions are recorded using the specific-identification method and are reflected in the statement of operations. Investment transactions are accounted for on a trade date basis. Dividend income and expense are recorded on the ex-dividend date net of any applicable withholding taxes. Interest income and expense are recorded on an accrual basis.

2. Significant Accounting Policies (continued)

(d) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated at year-end rates of exchange with the resulting gains and losses reflected in net realized and unrealized gain/(loss) on investment transactions on the statement of operations. Purchases and sales of investments and income and expense items denominated in foreign currencies are translated on the respective dates of such transactions. The Fund does not generally isolate that portion of the results of operations arising as a result of changes in the foreign currency exchange rates from the fluctuations arising from changes in the market prices of securities.

(e) Taxation

Under Cayman Islands law, there are no income, withholding, or capital gains taxes payable by the Fund. However, distributions from securities issued in other countries may be subject to withholding or capital gains taxes imposed by such countries. Withholding taxes on foreign income may be withheld in accordance with the applicable country's tax rates.

Under U.S. GAAP, the Fund is subject to the provisions of Accounting for Uncertainty in Income Taxes. This standard defines the threshold for recognizing the benefits of tax-return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority and requires measurement of a tax position meeting the more-likely-than-not criterion, based on the largest benefit that is more than 50 percent likely to be realized. De-recognition of a tax benefit previously recognized could result in the Fund recording a tax liability that would reduce net assets. This policy also provides guidance on thresholds, measurement, de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition that is intended to provide better financial statement comparability among different entities.

The Investment Manager has analyzed the Fund's tax positions taken on Federal, State, and Local income tax returns for 2006 through 2011, and has made a provision for income taxes of $9,616, included in taxes payable in the statement of assets and liabilities and included in net realized gain on investments in securities in the statement of operations. However, the Fund's conclusions regarding this policy may be subject to review and adjustment at a later date based on factors including, but not limited to, on-going analyses of and changes to tax laws, regulations and interpretations thereof. The Fund recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense in the statement of operations.

2. Significant Accounting Policies (continued)

(f) Condensed schedule of investments

The industry classifications and geographic locations included in the condensed schedule of investments represent the Investment Manager's belief as to the most meaningful presentation of the classification of the Fund's investments.

(g) Securities lending

The Fund receives compensation in the form of fees and continues to receive dividends on securities loaned. The loans are secured by collateral in the form of U.S. Treasury securities at least equal, at all times, to the daily value of the securities loaned plus accrued interest. Gain or loss in the fair value of the securities loaned that may occur during the term of the loan will be for the account of the Fund. The Fund has the right under the lending agreement to recover the securities from the borrower on demand. As of June 30, 2011, there were no securities loaned.

(h) Cash equivalents

Cash equivalents include amounts held by custodians and highly liquid investments with original maturities of three months or less at the time of purchase, which are valued at fair value. As of June 30, 2011, $9,999,700 of cash equivalents was invested in U.S. Treasury bills with maturities of less than three months at the time of purchase. All cash equivalents are held with major financial institutions in the United States. As of June 30, 2011, the Fund had $9,999,700 as cash equivalents and no cash balances.

(i) Foreign securities

The Fund invests in the securities of foreign companies which involve special risks and considerations not typically associated with investing in U.S. companies. These risks include devaluation of currency, less reliable information about issuers, different securities transaction clearance and settlement practices and future adverse political and economic developments. Moreover, securities of foreign corporations and their markets may be less liquid and their prices more volatile than those of securities of comparable U.S. companies.

3. Due from Brokers

Due from brokers includes cash balances with the Fund's clearing brokers and net amounts receivable for securities transactions that have not settled at June 30, 2011. The clearing and depository operations for the Fund's security transactions are provided by the Brokers. The Brokers serve as the Fund's primary brokers, in which capacity they are custodians of substantially all of the Fund's securities positions and cash.

Cash at the broker is primarily related to excess uninvested balances and proceeds from securities sold, not yet purchased. Cash at the clearing broker that is related to securities sold, not yet purchased may be restricted until the securities are purchased.

4. Share capital

The Fund is authorized to issue 15,000,000 common shares with a par value of $0.01 each. The Fund is currently offering Class A and Class B common shares. Class A and Class B common shares have equal voting, dividend distribution, and Fund liquidation rights. The net increase or decrease in net assets resulting from operations, other than profits or losses related to "New Issue" securities, was allocated to all classes of Shareholders pursuant to their respective ratio of net assets owned at the beginning of each month adjusted for subscriptions and redemptions, and in accordance with the Fund's Confidential Explanatory Memorandum. Class A common shares are issued to investors who are permitted to participate in profits or losses, if any, from "New Issue" securities under the rules of the Financial Industry Regulatory Authority while Class B common shares are issued to investors who are not permitted to participate in "New Issue" profits or losses. For the year ended June 30, 2011, the Fund earned $990,620 of New Issue income.

Shares in the Fund may be generally purchased at the net asset value on the first business day of each calendar month, or such other days as determined by the Board of Directors, at the net asset value per share as of the close of business on the immediately preceding business day. However, when shares are subscribed during the course of a fiscal year, certain adjustments to the amount of money paid for the purchase of shares, as described in Note 7, are necessary to reduce inequities in incentive fee calculations that could otherwise result to the shareholder or Investment Manager. Shares may be redeemed on the last business day of each calendar month pursuant to written notice which must be received by the Fund at least 45 days prior to such redemption date, at the net asset value or on such other days as the Board of Directors may determine. Shareholders who redeem their shares prior to the first anniversary of the purchase are subject to a 3% redemption fee, payable to the Fund. For the year ended June 30, 2011, no redemption fees were charged.

4. Share capital (continued)

Movements in the number of common shares outstanding for the year ended June 30, 2010 is as follows:

	Class A	Class B
Shares outstanding at beginning of year	780,178.24	50,829.13
Issued during year	521,524.69	5,133.85
Redeemed during year	(293,141.01)	(50,829.13)
Shares outstanding at end of year	1,008,561.92	5,133.85

5. Administration

The Fund has entered into an agreement with the Administrator, to carry out the day-to-day activities such as fund accounting and general administrative tasks for the Fund. The Administrator has sole responsibility for the administration of the Fund's affairs, except with respect to investment management and related responsibilities. For its services, the Administrator receives a monthly fee based upon a negotiated fee schedule.

6. Related Party Transactions

The Investment Manager provides investment advisory services to the Fund for which it receives a quarterly management fee payable in advance at a rate of 0.375% (1.50% per annum) of the net assets of the Fund at the beginning of each calendar quarter. For the year ended June 30, 2011, management fee totaled $3,191,328 of which $42,386 was payable at June 30, 2011.

The Investment Manager is also entitled to receive an incentive fee at the end of each fiscal year equal to 20% of net profits allocable to each common share of Class A and Class B, taking into account any loss carryovers. The loss carryover per share at the beginning of any year shall be the loss carryover per share at the beginning of the preceding year plus an amount equal to the decrease in net asset value per share during the preceding year or minus an amount equal to the increase in net asset value during the preceding year. For the year ended June 30, 2011, incentive fee totaled $4,254,922 of which $4,266,154 was payable at June 30, 2011.

The Board of Directors may, in their sole and absolute discretion, but with the consent of the Investment Manager, waive the payment of all or part of the management and/or incentive fee with respect to any shareholder for any period the Board of Directors determine is appropriate, including with respect to shareholders who are employees of the Investment Manager. For the year ended June 30, 2011, there were no management and/or incentive fee payments waived.

6. Related Party Transactions (continued)

Prior to July 1, 2009, the Investment Manager could elect to defer before the first day of each year or each quarter the payment of all or part of the management and/or incentive fees. As of July 1, 2009, the Investment Manager no longer defers management and/or incentive fees pursuant to United States tax regulations. The deferred fees may either be invested in the same manner as the Fund's assets or in another manner in accordance with the deferred fee arrangement with the Investment Manager.

A deferred account is maintained with respect to each management fee and incentive fee previously deferred, and is credited or charged its proportionate share of the Fund's investment gains and losses in the same manner as the Fund's other investors. At June 30, 2011, the net appreciation on deferred fees amounted to $148,437. Distributions of deferred fees of $4,174,591 were paid during the year ended June 30, 2011.

Movement in the deferred fees balance for the year ended June 30, 2011 is as follows:

Deferred fees, July 1, 2010	$	4,026,154
Appreciation on deferred fees		148,437
Distribution		(4,174,591)
Deferred fees, June 30, 2011	$	-

7. Equalization

When the net asset value per share is more than the beginning year net asset value per share ("Beginning Value"), the offering price is the sum of the net asset value per share inclusive of the Equalization Factor, as defined below. Equalization Factor is an amount which the shares outstanding since the beginning of the fiscal year ("Year Beginning") should be charged (i.e. 20% of the increase in net asset value per share since Year Beginning), and which the shares subscribed for at the date of the interim purchase ("Interim Purchase Date") should not be charged. To the extent that the increase in value of the shares that cause the payment of the Equalization Factor is not lost in the current year, the Equalization Factor attributable to such increase becomes payable to the shareholder at the end of the current year. To the extent that the increase in value of the shares that causes the payment of the Equalization Factor is lost in the year the shares are purchased but is recovered in a subsequent year, the Equalization Factor attributable to such recovery will become payable to the shareholder at the end of the year in which the recovery occurs.

7. Equalization (continued)

Upon redemption by a shareholder of his shares, the same amount of the Equalization Factor will be paid to him as if the date of redemption were the last day of the fiscal year in which the shares are redeemed. Any Equalization Factor, or portion thereof, which is due to a shareholder not redeeming his shares will be used to purchase additional common shares on behalf of such shareholder as of the first day of the next succeeding fiscal year.

Certain adjustments are required at the end of the fiscal year if Shares are purchased during a fiscal year at a time when the net asset value per share is less than the Beginning Value or if Shares are purchased at the beginning of the fiscal year when there is a loss carryforward, so that the purchasers of those shares will be charged an Incentive Fee equal to 20% of the net profits allocable to each common share of Class A and Class B. These adjustments will be effected by redeeming a sufficient number of those shares at the end of the fiscal year so that the particular Shareholder will be charged the appropriate Incentive Fee. At June 30, 2011 the Fund had $105,309 outstanding Equalization Factor balance.

8. Derivative contracts

In the normal course of business, the Fund enters into derivative contracts for trading purposes and generally include forward foreign currency contracts, futures contracts, contracts for difference, swaps, and options. These derivative contracts are valued at fair value determined by using quoted market prices with the resulting gains and losses reflected in the statement of operations. The Fund's derivative activities and exposure to derivative contracts are classified by underlying risk. In addition to primary underlying risks, the Fund is also subject to additional counterparty risk due to the inability of its counterparties to meet the terms of their contracts. The Fund manages these risks on an aggregate basis along with the risks associated with its investing as part of its overall management policies. The Fund considers the creditworthiness of each counterparty to a derivative contract in evaluating potential credit risk.

Forward foreign currency contracts

The Fund enters into forward foreign currency contracts primarily to manage the exchange rate risk on its foreign currency denominated assets and liabilities. Forward foreign currency contracts are agreements for delayed delivery of specific currencies in which the seller agrees to make delivery at a specified future date of specified currencies. Risks associated with forward foreign currency contracts include the inability of counterparties to meet the terms of their respective contracts and movements in exchange rates.

8. Derivative contracts (continued)

Futures

The Fund may use futures contracts to gain exposure to, or hedge against, changes in the value of equities. A futures contract represents a commitment for the future purchase or sale of an asset at a specified price on a specified date.

The purchase and sale of futures contracts requires margin deposits with a futures commission merchant. Subsequent payments are made or received by the Fund each day, depending on the daily fluctuations in the value of the contract, and are recorded for financial statement purposes as unrealized gains or losses by the Fund. Futures contracts provide reduced counterparty risk to the Fund since futures are exchange-traded; and the exchange's clearinghouse, as the counterparty to all exchanged-traded futures, guarantees the futures against default.

Contracts for difference/ Swaps

As part of its trading strategy, the Fund enters into contracts for difference. The contracts involve commitments to pay interest in exchange for a market-linked return based on a notional amount of one or more underlying referenced equities. To the extent that the total return of the underlying referenced equities exceeds or falls short of the offsetting interest amount, the Fund will receive a payment from, or make a payment to, the counterparty respectively. Therefore, amounts required for the future satisfaction of the contracts for difference may be greater or less than the amount recorded.

The Fund enters into swaps to manage its exposure to the market or certain sectors of the market, or to create exposure to certain equities to which it is otherwise not exposed. Generally, a swap contract is an agreement that obligates two parties to exchange a series of cash flows at specified intervals based upon or calculated by reference to changes in specified prices or rates for a specified notional amount of the underlying assets. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

8. Derivative contracts (continued)

Contracts for difference/ Swaps (continued)

During the term of the swaps, changes in value are recognized as unrealized gains or losses by marking the contracts to fair value. Additionally, the Fund records a realized gain (loss) when a swap contract is terminated and when periodic payments are received or made at the end of each measurement period, but prior to termination. Unrealized gains (losses) and realized gains (losses) are reflected in the statement of operations. Risks may arise as a result of the failure of the counterparty to comply with the terms of the swap contract. The loss incurred by the failure of a swap counterparty is generally limited to the aggregate fair value of the swap contracts in an unrealized gain position as well as any collateral posted with the counterparty. The risk is mitigated by the posting of collateral by the counterparty to the Fund to cover the Fund's exposure to the counterparty. The Fund's credit risk relates to the potential inability of counterparties to perform their obligations under the terms of a contract. The Fund's exposure to credit risk associated with counterparty non-performance is generally limited to the fair value of OTC derivative contracts reported as assets plus any collateral posted. The Fund views its credit exposure to be $66,454 at June 30, 2011, representing the fair value of OTC derivative contracts in an unrealized gain position. The counterparties do not post collateral with the Fund to mitigate exposure to these contracts, as posting requirements are currently effective unilaterally.

Options

Typically, option contracts serve as components of the investment strategies of the Fund and are utilized primarily to structure and hedge investments for changes in the value of securities. Option contracts give the Fund the right, but not the obligation, to buy or sell within a limited time, a financial instrument at a contracted price that may also be settled in cash, based on differentials between specified indices or prices. Options written obligate the Fund to buy or sell within a limited time, a financial instrument at a contracted price that may also be settled in cash, based on differentials between specified indices or prices. Options written by the Fund may expose the Fund to the market risk of an unfavorable change in the financial instrument underlying the written option.

The maximum payout for written put options is limited to the number of contracts written and the related strike prices. At June 30, 2011, the portfolio had a maximum payout amount of approximately $6,647,000 relating to written put option contracts with terms ranging from 0 to 2 months. The maximum payout amount could be offset by the subsequent sale, if any, of assets obtained via the settlement of a payout event. The fair value of these written put options as of June 30, 2011 is $153,606 and is included in securities sold, not yet purchased in the statement of assets and liabilities.

8. Derivative contracts (continued)

The following table identifies the fair value amounts of derivative contracts in the statement of assets and liabilities, categorized by primary underlying risk, at June 30, 2011. Balances are presented on a gross basis, prior to the application of the impact of counterparty or collateral netting. The following table also presents the gross contractual amount for each type of derivative contract at June 30, 2011 which the Investment Manager believes is reflective of the level of derivative activity for the year then ended.

	Statement of Assets and Liabilities				Statement of Operations	
	Assets		Liabilities			
Primary underlying risk	Unrealized appreciation on derivative contracts/ Fair value	Notional Amounts*	Unrealized depreciation on derivative contracts/ Fair value	Notional Amounts*	Net realized gains/ (losses)	Net change in unrealized gains/ (losses)
Foreign currency exchange rate						
Forward foreign currency contracts	$ 149,815	$ 27,779,706	$ 488,206	$ 34,206,068	$ (1,378,858)	$ (451,458)
Equity price						
Contracts for difference	66,454	5,440,739	410,856	9,000,214	(1,826,444)	(135,296)
Total return swap	-	781,595	-	479,236	(216,880)	14,035
Futures contracts	-	1,543,516	209,986	2,013,170	1,175,181	(398,357)
Total gross	216,269		1,109,048		(2,247,001)	(971,076)
Effects of netting agreements	(216,269)	–	(216,269)	–	-	-
Total net	-		892,779 [1]		(2,247,001) [4]	(971,076) [5]
Foreign currency exchange rate						
Option contracts	– [2]	134,940	–	–	-	(22,604) [7]
Equity price						
Option contracts	1,166,978 [2]	122,139,169	455,507 [3]	46,270,770	(8,970,841) [6]	(455,260) [7]
Warrants	–	1,614,419	-	169,468	52,691 [6]	483,586 [7]
Total	$ 1,166,978		$ 1,348,286		$ (11,165,151)	$ (965,354)

[1] *Included in net unrealized depreciation on derivative contracts, at fair value on the statement of assets and liabilities*
[2] *Included in investments in securities, at fair value on the statement of assets and liabilities*
[3] *Included in securities sold, not yet purchased, at fair value on the statement of assets and liabilities*
[4] *Included in net realized loss on derivative contracts on the statement of operations*
[5] *Included in net change in unrealized depreciation on derivative contracts on the statement of operations*
[6] *Included in net realized gain on investments in securities on the statement of operations*
[7] *Included in net change in unrealized appreciation on investments in securities on the statement of operations*
* *Based on an average of the quarter-end notional balances.*

8. Derivative contracts (continued)

The Fund's derivative contracts are subject to the International Swaps and Derivative Association ("ISDA") Master Agreement which contain certain provisions that may require the Fund to maintain a predetermined level of net assets and/or provide limits regarding a decline of the Fund's net asset value ("NAV") over 1-month, 3-month, and 12-month periods. If the Fund was to violate such provisions, the counterparties to the derivative instruments could request termination of such derivative instruments which could result in requests for immediate payment. As of June 30, 2011, the aggregate fair value of all derivative instruments with credit-risk contingent features that are in a net liability position is $344,402. The Fund has posted cash collateral of approximately $2,597,000 which represents a percentage of the total contract for difference notional outstanding of $12,986,026. If the credit-risk-related contingent features underlying these derivative instruments had been triggered as of June 30, 2011, the counterparties may immediately terminate these derivative instruments and require the Fund to pay the total amount of net liability recorded at June 30, 2011 upon demand. However, the ultimate amounts that may have been required to satisfy the triggering of such credit contingency features at June 30, 2011 could be different than the net liability amounts recorded at June 30, 2011 and such differences could be material. For the year ended, June 30, 2011 no derivative agreements or derivative instruments were terminated as a result of non-compliance with ISDA provisions, including the violation of NAV triggers.

9. Financial Instruments with Off Balance-Sheet Risk or Concentrations of Credit Risk

The Fund's investment activities expose it to various types of risk that are associated with the financial instruments and markets in which it invests. The financial instruments expose the Fund in varying degrees to elements of credit, market, and currency risk.

As part of its investment strategy, the Fund engages in short sale transactions. A short sale is a transaction in which the Fund sells a security it does not own. A short sale involves the risk of a theoretically unlimited increase in the market price of the particular security sold short, which could result in the inability to cover the short position and theoretically unlimited loss. There can be no assurance that securities necessary to cover a short position will be available for purchase.

In writing an option, the Fund bears the market risk of an unfavorable change in the financial instrument underlying the written option. The exercise of an option written by the Fund could result in the Fund buying or selling a financial instrument at a price higher or lower than the current market value, respectively. Realized and unrealized gains and losses related to written options are included in the statement of operations.

9. Financial Instruments with Off-Balance-Sheet Risk or Concentrations of Credit Risk (continued)

The Fund's risk of loss on forward foreign currency contracts, futures contracts, contracts for difference, options, and swaps is theoretically not represented by the amounts reported in the statement of assets and liabilities, but rather by the notional amounts of the contracts should the currency being received or the underlying security be deemed worthless. The notional amounts are disclosed in Note 8.

The Fund uses options, forward foreign currency contracts, futures contracts, contracts for difference, warrants and swaps for trading purposes and for managing the market risk associated with the portfolio of securities and securities sold, not yet purchased. The use of these contracts exposes the Fund to market risks equivalent to actually holding securities of the underlying instrument. Entering into contracts for difference and swaps involves the risk of dealing with counterparties and their ability to meet the terms of the contracts. The Fund's credit risk relates to the potential inability of counterparties to perform their obligations under the terms of a contract.

The Fund reduces its credit risk with counterparties by entering into master netting agreements with its counterparties. Therefore, assets represent the Fund's unrealized appreciation less unrealized depreciation for derivative contracts in which the Fund has a master netting agreement. Similarly, liabilities represent the Fund's unrealized depreciation less unrealized appreciation for derivative contracts in which the Fund has a master netting agreement.

The Fund's exposure to credit risk associated with counterparty non-performance is generally limited to the fair value of over-the-counter derivatives reported as assets as well as any collateral posted. The notional amounts of derivatives do not represent the Fund's maximum risk of loss due to counterparty non-performance. Exchange-traded contracts generally do not give rise to significant counterparty exposure because of margin requirements of the individual exchange and the clearing house.

10. Recently Issued Accounting Pronouncements

On January 21, 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Board ("ASU") 2010-06, "*Improving Disclosures about Fair Value Measurement,*" an amendment to Subtopic 820-10 which requires the following disclosures about fair value investments: 1) a reporting entity should disclose the amounts of significant transfers in and/or out of Level I and Level II fair value measurements and the reasons for the transfers; 2) the reasons for any transfers in and out of Level III; and 3) information in the reconciliation of recurring Level III measurements about purchases, sales, issuances and settlements on a gross basis. In addition to these new disclosure requirements, the ASU also amends ASC 820 to clarify that reporting entities are required to provide fair value measurement disclosures for each class of assets and liabilities. Prior to the issuance of ASU 2010-06, the guidance in ASC 820 required separate fair value disclosures for each major category of assets and liabilities. ASU 2010-06 also clarifies the requirement for entities to disclose information about both the valuation techniques and inputs used in estimating Level II and Level III fair value measurements. Except for the requirement to disclose information about purchases, sales, issuances and settlements in the reconciliation of recurring Level III measurements on a gross basis, which are effective for annual reporting periods beginning after December 15, 2010, all the amendments to ASC 820 made by ASU 2010-06 are effective for annual reporting periods beginning after December 15, 2009. The Fund adopted the standard effective July 1, 2010, which did not have a material impact on the Fund's financial statements.

In May 2011, the FASB issued the ASU 2011-04 *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards ("IFRS").* ASU 2011-04 includes common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS. ASU 2011-04 will require reporting entities to disclose the following information for fair value measurements categorized within Level III of the fair value hierarchy: quantitative information about the unobservable inputs used in the fair value measurement, the valuation processes used by the reporting entity and a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs. In addition, ASU 2011-04 will require reporting entities to make disclosures about amounts and reasons for transfers in and out of Level I and Level II fair value measurements. The new and revised disclosures are effective for interim and annual reporting periods beginning after December 15, 2011. The Fund is currently evaluating the implications of ASU 2011-04 and its impact on the financial statements.

11. Indemnifications

In the normal course of business, the Fund enters into contracts that contain a variety of indemnifications and warranties. The Fund's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Fund that have not yet occurred. However, the Fund has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote. Thus, no amounts have been accrued related to such indemnifications.

12. Financial Highlights

	Class A	Class B
Per share operating performance		
Beginning net asset value	$ 205.67	$ 185.30
Net investment loss	(8.74)	(5.99)
Net realized and unrealized gains	33.58	27.64
	24.84	21.65
Ending net asset value	$ 230.51	$ 206.95
Total return before incentive fee	13.89%	13.37%
Incentive fee	(1.81%)	(1.69%)
Total return after incentive fee	12.08%	11.68%
Ratios to average net assets		
Expenses before incentive fee	2.66%	2.62%
Incentive fee	2.03%	1.24%
Total expenses	4.69%	3.86%
Appreciation on deferred fees	(0.07%)	(0.07%)
Total expenses excluding appreciation on deferred fees	4.62%	3.79%
Net investment loss	(3.94%)	(3.07%)

12. Financial Highlights (continued)

Ratios to average net assets are calculated for each class taken as a whole. An individual investor's results may vary from these results based on different management fee and incentive fee arrangements and the timing of capital transactions.

13. Subsequent Events

Subsequent to June 30, 2011, the Fund received $11,650,000 in subscriptions from shareholders of the Fund and processed no redemptions. Subsequent events were evaluated by the Fund through September 29, 2011, which is the date the financial statements were available to be issued.